

Message Text

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8328

LIMITED OFFICIAL USE SECTION 01 OF 03 LONDON 19405

PASS TREASURY, FRB, NSC

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: JAVITS AND REUSS ON ASSISTANCE TO BRITAIN

1. SENATOR JAVITS AND CONGRESSMAN REUSS HAVE BEEN IN LONDON, SEEING A NUMBER OF BRITISH MINISTERS, OFFICIALS, AND IMPORTANT PRIVATE CITIZENS, AND HAVE MADE PUBLIC THEIR VIEWS ON THE SENSITIVE SUBJECT OF ECONOMIC ASSISTANCE TO THE UK.
2. SENATOR JAVITS, IN A WEDNESDAY MORNING PRESS CONFERENCE HELD AT THE EMBASSY, STRESSED ABOVE ALL ELSE THAT, WHILE NO CONGRESSIONAL ACTION IS REQUIRED FOR THE PROPOSED 3.9 BILLION IMF CREDIT TO GO THROUGH, ANY OF FURTHER ACTIONS TO AID BRITAIN THAT HAVE BEEN DISCUSSED WOULD, IN HIS JUDGMENT AS AN EXPERIENCED MEMBER OF CONGRESS, REQUIRE CONGRESSIONAL ACTION.
3. SENATOR JAVITS SAID THAT WHILE THE FOREIGN RELATIONS COMMITTEE DID NOT SEND OFFICIAL "EMISSARIES" ABROAD, THE CHAIRMAN AND RANKING MINORITY MEMBER OF THE COMMITTEE HAD FELT HE WAS APPROPRIATE TO LOOK INTO THE BRITISH SITUATION. HE HAD SEEN THE PRIME MINISTER, ROBERT SHELDON (JUNIOR TREASURY MINISTER), HAROLD LEVER, ROY JENKINS, GORDON RICHARDSON, KEITH JOSEPH,

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AND A NUMBER OF BANKERS, BUSINESS LEADERS, AND ECONO-

MISTS. WHILE HE DID NOT RESPOND DIRECTLY WHEN ASKED WHETHER SHELDON AND LEVER HAD ASKED FOR ACTION ON STERLING BALANCES SIMULTANEOUS WITH THE GRANTING OF THE IMF LOAN, HE REPORTED HIS IMPRESSION THAT THE BRITISH GOVERNMENT THINKS ACTION ON STERLING BALANCES IS AS IMPORTANT AS THE IMF LOAN. HE WISHED TO CLARIFY WHAT HE SAW AS THE STATE OF AMERICAN PUBLIC AND CONGRESSIONAL OPINION.

4. THE FIRST POINT HE WISHED TO MAKE WAS THE ONE ABOUT THE NEED FOR CONGRESSIONAL ACTION ON ANY ASSISTANCE BEYOND THE IMF LOAN. BEYOND THIS HE WANTED TO STRESS THAT THE BRITISH SITUATION IS VERY GRAVE, REQUIRING AFFIRMATIVE ACTION NOT ONLY BY THE U.S. BUT ALSO BY OTHERS, NOTABLY WEST GERMANY AND JAPAN. HE SAID THERE IS GREAT APPRECIATION IN THE U.S. OF THE VALUE OF THE UK TO SECURITY AND PEACE IN THE WORLD AND AS A PARTICIPANT IN A STRONG EUROPE WHICH COULD BE A VALID PARTNER FOR THE U.S.

5. A FINANCIAL COLLAPSE IN THE UK COULD ABORT THE RECOVERY OF THE INDUSTRIAL WORLD, PERHAPS EVEN TAKE THE WORLD WITH IT. WHILE THE U.S. IS IN PRETTY GOOD SHAPE, EVEN IT COULD BE AFFECTED.

6. THE U.S. HOPES THAT THE UK WILL RECEIVE THE IMF LOAN. WHILE IT IS NOT FOR THE US OR FOR HIM AS A SENATOR TO EXPRESS A VIEW ON WHAT DETAILED ACTIONS THE UK SHOULD TAKE, PEOPLE IN THE US FEEL THAT IT IS APPROPRIATE TO SET "PERFORMANCE STANDARDS" FOR THE UK. THESE SHOULD TAKE THE FORM OF "OBJECTIVE FINANCIAL CONDITIONS" FOR THE IMF LOAN.

7. THE IMF LOAN. WHILE IMPORTANT, IS NOT THE WHOLE STORY. HOWEVER. DISCUSSION NOW OF WHAT COULD BE DONE FOR THE UK AFTER APPROVAL OF AN IMF LOAN COULD ONLY BE "SPECULATIVE". WHAT WOULD FOLLOW WILL BE CONDITIONED BY BRITISH PERFORMANCE IN MEETING THE CONDITIONS ATTACHED TO THE IMF LOAN, IMPROVING ITS BOP, ETC. WE WILL WANT TO SEE CASH FLOW CHARTS, 5-YEAR PLANS FOR LIMITED OFFICIAL USE

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INDUSTRIAL RECOVERY, BUILT INTO ANY FURTHER ASSISTANCE. FURTHERMORE, WHEN THE PRESIDENT NEEDS AN AUTHORIZATION OR APPROPRIATION FOR NEW LENDING, AS IN JAVITS' JUDGMENT THE PRESIDENT WOULD FOR ANYTHING BEYOND THE IMF LOAN, HE WOULD HAVE TO GO TO CONGRESS. IN ANY EVENT, HE DID NOT BELIEVE THE NEW PRESIDENT WILL SEEK TO GO BEYOND THE BOUNDS OF CLEAR EXECUTIVE POWERS.

8. SENATOR JAVITS SAID HE IS NOT ONE WHO BELIEVES,

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8329

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LIKE MILTON FRIEDMAN, THAT BRITAIN IS GOING DOWN TO INEVITABLE RUIN. ON THE OTHER HAND, WE CANNOT CONDONE OR GO ALONG WITH A CONTINUANCE OF PAST POLICIES. IF THE UK WANTS US PUBLIC AND CONGRESSIONAL AGREEMENT TO FURTHER AID, THE UK MUST FOLLOW A BETTER "PERFORMANCE ROUTE" THAN IT HAS SINCE 1968. AND ESPECIALLY SINCE THE OIL CRISIS OF 1973. WHILE IT IS NOT AN AMERICAN'S PLACE TO EXPRESS A PREFERENCE FOR ONE POLITICAL PARTY OR ANOTHER, OR TO SAY DO THIS OR THAT WITH INCOME TAX OR VAT, IT IS APPROPRIATE FOR THE US TO SET PERFORMANCE STANDARDS. AS EXAMPLES OF WHAT IS WRONG WITH THE UK, HE CITED THE LACK OF CONFIDENCE OF FOREIGN HOLDERS IN STERLING; THE PROBLEMS CAUSED BY THE EFFECTIVE DE-VALUATION OF THE POUND; AND PROBLEMS OF COMPETITIVENESS AND PRODUCTIVITY. THESE NEED CORRECTION.

9. SENATOR JAVITS SAID HE RECOGNIZED THAT IF THE "POSTURE" HE DESCRIBED (APPARENTLY REFERRING TO TOUGH CRITERIA FOR BOTH THE IMF LOAN AND ANY FURTHER ASSISTANCE), WHICH HE FELT WAS FAVORED BY A MAJORITY OF CONGRESS, WAS ADOPTED, IT COULD LEAD TO FAILURE AND DISASTER - A BRITISH COLLAPSE LEADING TO WORLD COLLAPSE. NEVERTHELESS, HE WOULD VOTE FOR RUNNING THAT RISK".

10. A QUESTIONER PURSUED SENATOR JAVITS ON THE POINT THAT HE DID NOT, LIKE CONGRESSMAN REUSS, BELIEVE THAT LIMITED OFFICIAL USE

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THE IMF LOAN AND FURTHER MEASURES SHOULD BE LINKED; THE QUESTIONER SUMMED UP JAVITS' VIEWS AS BEING, LOOK AT POST-IMF-LOAN PERFORMANCE BEFORE DOING MORE.

11. SENATOR JAVITS SAID THE SCENARIO HE HOPED FOR WAS THAT THE IMF LOAN WOULD BE AGREED TO WITHOUT IT BEING CONDITIONED ON DOING SOMETHING ON STERLING BALANCES, BUT THERE SHOULD BE NO FORMAL LINK BETWEEN THE TWO. THE DISCUSSIONS OF STERLING BALANCES SHOULD TAKE PLACE PRETTY SOON BECAUSE THE UK WILL NEED ASSISTANCE BEYOND THE IMF LTAN. HOWEVER, THE US (AND THE OTHER BIG POTENTIAL CREDITORS) MUST HAVE "FREEDOM OF ACTION". (THIS APPARENTLY MEANS THEY SHOULD NOT BE BOUND, BY THE FACT OF AN IMF LOAN, TO TAKE ANY FURTHER ACTION.) IN RESPONSE TO A FURTHER QUESTION, SENATOR JAVITS SAID HE WOULD NOT BE OPPOSED TO A STATEMENT BEING MADE AT THE TIME THE IMF LOAN IS ANNOUNCED, OF US WILLINGNESS TO TALK ABOUT STERLING BALANCES.

12. CONG. REUSS ON NOVEMBER 29 SPOKE TO A LUNCHEON MEETING OF THE INSTITUTIONAL INVESTORS CONFERENCE, AND TOOK QUESTIONS FROM THE AUDIENCE; AFTERWARDS HE GAVE A PRESS CONFERENCE. WE HAVE LISTENED TO TAPES OF THESE SESSIONS; WE HAVE NOT YET OBTAINED A TAPE OR TRANSCRIPT OF A BBC INTERVIEW HE GAVE THE SAME DAY.

13. CONG. REUSS, TOO, HAS SEEN MANY LEADING FIGURES; HE REPORTED AT THE PRESS CONFERENCE THAT HE HAD SEEN HEALEY AND WAS SEEING HIM AGAIN LATER THE SAME DAY; HE HAD ALSO SEEN LEVER AND RICHARDSON, AS WELL AS SOME COMMERCIAL BANKERS.

14. ASIDE FROM EXTENSIVE DISCUSSION OF US ECONOMIC PROSPECTS, CONG. REUSS HAD THREE MAIN POINTS TO MAKE WITH REGARD TO THE UK'S PLIGHT:
(A) BRITAIN SHOULD NOT LOOK TO THE U.S. FOR TOO MUCH HELP. THE SUGGESTION IS SOMETIMES MADE THAT THE US SHOULD AID THE UK WITH A VAST MULTIBILLION DOLLAR MARSHALL PLAN. HONESTY REQUIRED HIM TO NOTE THE MULTIPLE

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8330

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DOMESTIC AND INTERNATIONAL OBLIGATIONS OF THE U.S., INCLUDING POTENTIAL AID TO OTHER TOTTERING ECONOMIES. THE UK COULD EXPECT NOT JUST FRIENDSHIP BUT VERY CONSIDERABLE THOUGH NOT LIMITLESS FINANCIAL HELP FROM THE U.S.--"NO MAGNA CARTA FOR THE YEARS AHEAD." HE ALSO NOTED THAT THERE IS UNDER THE AMERICAN SYSTEM AN UNFORTUNATE HIATUS. HE COULDN'T FAULT CARTER FOR BEING UNABLE AND UNWILLING TO ASSUME A DECISION-MAKING ROLE BEFORE JAN. 20, NOR FORD AND SIMON FOR CONTINUING TO ACT OUT THEIR ROLES; BUT HE FELT IT UNFORTUNATE, PARTICULARLY AS THE ELECTORATE HAD DEFEATED THE REPUBLICANS BECAUSE THEY HAD TENDED TO LET THE ECONOMY STAGNATE.

(B) IT WOULD BE WRONG FOR THE IMF OR THE US TO IMPOSE THE WRONG REMEDIES ON THE UK. THE BRITISH ECONOMY'S PROBLEMS ARE STRUCTURAL, AND RESOLVING THEM WOULD BE MORE DIFFICULT, NOT EASIER, IF THE UK WERE FORCED TO DEFLATE AND INCREASE UNEMPLOYMENT. THE IMF SHOULD NOT IMPOSE OLD-FASHIONED CONDITIONS ON THE UK, STRESSING BUDGET CUTS AND MONEY SUPPLY MEASURES. THIS APPROACH WOULD BE INCONSISTENT WITH WHAT REUSS DESCRIBED AS A NEW "MICRO-ORIENTED" ADMINISTRATION IN THE U.S. TO IMPOSE SUCH CONDITIONS WOULD BE TO COMMIT THE CARTER ADMINISTRATION TO AN OLD APPROACH IT REJECTED. SINCE THE IMF IS RESPONSIVE TO ITS EXECUTIVE DIRECTORS, THIS SHOULD BE AVOIDABLE. INSTEAD, THE IMF AND THE BRITISH

GOVERNMENT SHOULD WORK OUT A LETTER OF INTENT WHICH
WOULD ATTACK THE STRUCTURAL PROBLEMS--THINGS LIKE FEATH-
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ERBEDDING, MANAGEMENT'S LACK OF ZEAL FOR MODERNIZATION,
EXCESS GOVERNMENT EMPLOYMENT. SUCCESS OF THIS ATTACK ON
THE STRUCTURAL PROBLEMS WOULD TAKE TIME, OF COURSE.
CONG. REUSS SAID HE DID THINK THAT SOME OBEISANCE TO
OLD IMF WAYS WAS POSSIBLE--SUCH AS RAISING LIQUOR AND
PETROL TAXES. BUT IN THE MAIN, MICRO-ECONOMIC PRESCRIP-
TIONS LEADING TO DEFLATION SHOULD BE AVOIDED.

(C) SOMETHING SHOULD BE DONE ABOUT THE STERLING BALAN-
CES. THE SCHEME THAT APPEALED MOST TO HIM IS TO HAVE
THE WEALTHY COUNTRIES--THE US, WEST GERMANY, AND JAPAN--
BACK UP AN IMF OFFER TO TAKE OVER SUCH PART OF THE
OFFICIALLY HELD STERLING BALANCES AS THEIR HOLDERS WISH
TO TURN IN FOR A LONG TERM--10, 15, OR 20 YEAR--FIXED
INTEREST RATE SECURITY DENOMINATED IN SDRS, OR A BASKET
OF CURRENCIES, OR DOLLARS, OR WHATEVER PEOPLE MIGHT WANT,
WITH THE BRITISH, WHO HAVE NORTH SEA OIL TO LOOK FORWARD
TO, TAKING THE RISK OF A POUND DEVALUATION COMES DUE.
SOMETHING LIKE THIS SHOULD BE DONE TO GET THIS PROBLEM
OUT OF THE WAY AS AN ELEMENT OF THE PICTURE. BEYOND
THE STERLING BALANCE QUESTION, THERE IS STILL KISSINGER'S
IDEA OF A 25 BILLION DOLLAR OIL SAFETY NET. HE THOUGHT
IT BETTER TO HAVE A SAFETY NET SET UP UNDER THE IMF AND
NOT TIED TO OIL. HE FELT IT WOULD BE DESIRABLE TO HOLD
A WORLD ECONOMIC SUMMIT AFTER CARTER IS IN PLACE TO CON-
CERT ALL MEASURES FOR THE UK, ITALY, ETC.. THAT WILL
HAVE TO BE TAKEN. IN HIS JUDGMENT IT WOULD NOT BE WISE
TO "FIX UP" THE 3.9 BILLION IMF LOAN WITHOUT REFERENCE
TO WHAT IF ANYTHING SHOULD BE DONE ABOUT STERLING
BALANCES. IT WOULD BE WELL TO LINK THE CURRENT IMF
LAON, THE PROBLEM OF STERLING BALANCES, AND THE PROBLEM
OF A SAFETY NET--THEY'RE ALL PART OF THE SAME PACKAGE.

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